



PROVIDING DROUGHT RELIEF

A GENUINE NEED – BUT NOT AN INVITATION TO BUDGET GIMMICKRY

INTRODUCTION

One of the great temptations to evade budgetary limits comes from “emergency” spending and other gimmickry. While legitimate emergencies do occur – requiring spending that must be addressed outside the normal budgetary procedures – Congress sometimes stretches the definition of “emergency” mainly to circumvent budget rules. In addition, there have been recent attempts to avoid offsetting spending in excess of the budget resolution by claiming “baseline” savings.

A good example of such gimmickry is the Senate’s recent call for \$5.95 billion in emergency assistance principally for drought-stricken farmers. No one denies the gravity of the situation for the farmers involved. But no one can say the need for drought assistance was “sudden” and “unforeseen,” as is customarily required of legitimate emergency spending. This is simply a case of the Senate using the emergency designation to circumvent budget rules. The Senate proposal also illustrates other budget gimmickry, as is shown below.

AGRICULTURE AND THE BUDGET

To provide an adequate safety net for agricultural producers, the fiscal year 2002 budget resolution conference report (H.Con.Res. 83) established a reserve fund for reauthorization of a Farm Bill. It reserved \$66.15 billion in new budget authority and outlays for fiscal years 2003-2011. It also set aside \$7.35 billion in fiscal year 2002 to be used for a new Farm Bill or *ad hoc* assistance. The Farm Bill was the budget resolution’s largest mandatory assumption other than Medicare – and the largest mandatory assumption to date to become law.

The fiscal year 2003 House budget resolution reiterated the commitment, providing \$41.293 billion in budget authority and \$39.243 billion in outlays for the 5-year duration of this

resolution (fiscal years 2003-2007). (Because the Senate did not pass a budget resolution, the House in May “deemed” its own budget resolution to be in force.)

The House passed its version of the Farm Bill in October 2001. The Senate acted on its own version in February 2002. The conference agreement – passed in May this year, and totaling \$73.5 billion over 10 years – complied with the House resolution for the 1st-year and 5-year totals, as required under the Congressional Budget Act. Any additional mandatory assistance, beyond these totals, would have to be fully offset with real mandatory program savings in order to meet budgetary requirements.

ADDITIONAL FARM SPENDING

On 10 September this year, the Senate adopted an amendment to its fiscal year 2003 Interior Appropriations bill (H.R. 5093), providing emergency farm aid to eligible crop and livestock producers affected by drought and other weather-related conditions. The aid covers losses incurred during the 2001 and 2002 crop years. The Congressional Budget Office [CBO] has estimated the amendment would cost \$5.95 billion for fiscal years 2003-2004.

Without offsets, the amendment will effectively increase mandatory spending by nearly \$6 billion *above* the \$73.5-billion Farm Bill (H.R. 2646), and would breach the Agriculture Committee’s allocation of new budget authority. The conference report for H.R. 2646, at the time of its passage in the House, already increased commodities and conservation – its two largest titles – by a combined total of more than 60 percent above current-law levels.

Meanwhile, the administration has been trying to free up funds and make them available to farmers needing assistance. Recently, for example, the administration provided \$750 million in livestock aid out of surplus funds

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from the section 32 program, which purchases commodities for the school lunch program.

FINANCING MYTHS

With the start of the new fiscal year last week, and the expiration of pay-as-you-go [PAYGO] and the statutory caps, the use of emergency designations is no longer in effect. Therefore additional spending such as the Senate's proposal must be paid for out of real savings elsewhere. But even if the law had not expired, designating the drought and other weather-related conditions as emergencies would be problematic for several reasons.

Like many of its "emergency" predecessors, this added spending does not at first seem egregious: the drought and other weather problems are real, and their impact severe; assistance is warranted. But the Senate's refusal to find offsets apparently rests on three myths:

This is an Emergency: Congress has designated legitimate emergencies at various times, usually in response to unforeseen weather events such as hurricanes. The terrorist attacks of September 11 were treated this way as well.

But the drought and weather-related problems that have plagued farmers throughout much of the country are clearly different. Many of these problems have affected farming communities for several years. These events clearly do not meet the convention that emergency spending should be restricted to events that are *sudden* and *unanticipated*. Indeed, the situation throughout much of the country was well known early this year. That is why the Senate version of the Farm Bill, passed in February, provided \$2.45 billion in agriculture disaster assistance. (The Senate declared the funding an emergency so it could exceed the Farm Bill's \$73.5-billion funding limit.)

Because the drought and other weather-related problems built up over time – and therefore do not meet all the requirements of an "emergency" – the emergency designation was removed from the conference report on the Farm Bill. But conferees still had the opportunity to use as much of the generously funded \$73.5 billion Farm Bill for disaster assistance as they saw fit. They chose to include just \$104 million of it in the final version of the bill.

Finding Offsets is Impractical: Under the Congressional Budget Act, any measure that would increase mandatory spending above a committee's allocation must make changes *in law* to reduce other mandatory spending by an

equal amount. In the case of the Senate bill, the bill must be amended to reduce direct spending (spending not subject to appropriations) by \$5.9 billion in fiscal year 2003.

There is no requirement under the Budget Act that offsets must come from the Farm Bill, or even from programs under the Agriculture Committee's jurisdiction (although under House rules, most offsets come from the jurisdiction of the committee that reported the original bill).

Some have argued that it is impractical to find offsets from agriculture programs. But making priorities within overall limits is the essence of budgeting. Without this practice – which budget rules are designed to reinforce – spending would grow hopelessly out of control. Further, it should be noted that the new Farm Bill is funded at a total level more than 10 times as large as the Senate disaster request.

In addition, the amount being requested for disaster assistance represents only 3 percent of total mandatory funds within the Agriculture Committee's jurisdiction.

It Can Be Paid for Out of Baseline Savings: Some have suggested that recent CBO projections of farm savings from higher-than-expected commodity prices can be used as offsets. But under existing budgetary procedures, it is not permissible to claim savings that would occur without further legislation. This might be understood by considering the reverse situation. When commodity prices fall below projected levels, payments to farmers rise as a counter-cyclical measure. If no other changes in agricultural assumptions occur, the overall baseline for spending increases. When this happens, the Agriculture Committee is not required to make changes in law to other valuable farm programs – such as reductions in the Direct Payment or Conservation Reserve Programs – to get back down to the original baseline.

THE OUTLOOK

As noted at the outset, the Senate's drought relief proposal illustrates common practices used to evade budget disciplines. That is the point of this discussion.

Regarding the drought relief itself, the Senate Interior Appropriations bill has failed to pass the full Senate because of issues unrelated to drought relief. Still, an effort to bring up a farm disaster assistance package could occur in both the House and Senate before the 107th Congress adjourns. Should this occur, the issue is not whether drought relief is necessary and important, but how to finance it.

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